

Quote of the week

“Don’t worry about the world coming to an end today. It’s already tomorrow in Australia.”
Charles M. Schulz

It seems like every decade or so there is some currency crisis around the world that causes our markets to really get rattled. This week was one of those rattle-traps.

The fear is that Greece, and ultimately the other “PIIGS” (Portugal, Italy, Ireland, Greece, Spain) will drag the world down the tubes. Yesterday (the rumor is anyway) there was a big trading error that caused the market to drop 700 points in 20 minutes and then go up 600 points in the next 15 minutes. Some people blamed the mess on the impending doom in Greece. That kind of volatility rattles the confidence in markets.

Below is a list of major countries that defaulted on their debt and what the U.S. stock market returned in the same year.

Year	Countries	S&P 500
1980	Bolivia, Nicaragua	32.4%
1982	Argentina, Ecuador, Mexico, Venezuela	21.4%
1983	Brazil, Chile, Peru, Uruguay	22.5%
1984	Cuba	6.3%
1986	Paraguay	18.5%
1998	Russia, Pakistan, Ukraine, Venezuela	28.6%
1999	Ecuador	21.0%
2000	Peru, Ukraine	-9.1%
2001	Argentina, Moldova	-11.9%
2003	Uruguay	28.7%
2005	Dominican Republic	4.9%
2006	Belize	15.8%

Source: First Trust, Moody’s

You can see that big sovereign debt defaults have had little real impact on our equity returns. In those 12 years the average return for the market was 15%. And the only two negative years were probably the fault of the dot-com bubble bursting; not due to Peru, Ukraine, Argentina and Moldova.

In the early 1980’s, when nearly every major country in the western hemisphere except the U.S. and Canada defaulted on its debt, American banks were up to their eyeballs in exposure to Latin American countries. The U.S.’s eight largest banks had 263% of their capital lent to countries south of the border. So far there isn’t any U.S. financial institution with any significant exposure to Greece, or any other European country.

One upside to the Euro debt crisis is you don’t hear the media bemoaning the weak dollar anymore; in fact the dollar is up about 10% this year.

And the real benefit to this whole Greek tragedy is it is focusing worldwide attention on bloated governments full of puffy politicians feeding at the public’s trough.

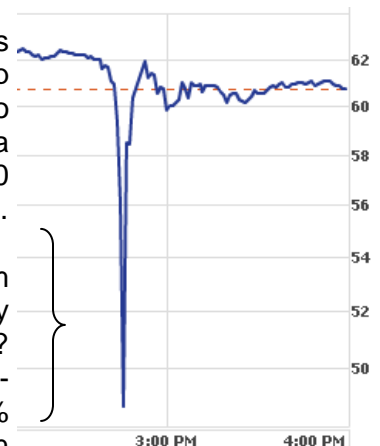
There are always things to worry about, it is just sometimes we worry about the wrong thing. Below is a prime example of a woman clearly focusing her worry on the wrong thing.



We aren’t pre-natal health experts here, but we suspect her habit of smoking would be a bigger negative for her child’s health than the sound of jackhammers!

We have had some clients worry that we don’t use stop orders behind our stocks to protect positions in case of a big drop. Yesterday’s 1000 point snafu is a case in point.

Here is a chart of P&G from yesterday. Do you really want to get stopped out? Isn’t a good company a better buy when it drops 20% for no apparent reason than a catalyst to sell?



For you dollar worrywarts, below is a chart that shows the dollar is back to near the high end of its 6 year trading range.

US DOLLAR INDEX	84.79	+0.77%	High: 85.27
n.a. / n.a. / ICE Futures U.S. - RT	05/06, 23:59:55	+0.64	Low: 83.92



Today we are adding a new holding to our Growth accounts. The telecom sector is attractive and after searching through several companies in that space we settled on buying Qualcomm.



This San Diego based company is behind the chips that make your cell phone work. The company's finances are superb with over \$9 billion of cash in their checkbook and no debt.

Earnings will be up about 20% this year and they have recently increased their dividend to where the dividend yield is now over 2%. Qualcomm has big exposure to 3G phones. 3G smartphones now have about 30% of the market, but are growing like a weed. China is now getting on the 3G bandwagon. Here is what Value Line said about a month ago:

China's 3G rollout is chugging along nicely. China Unicom and China Telecom have been aggressively building out their 3G networks. New devices should begin showing up in the second half of 2010.

The next new thing in cell phones is 4G, and here is Value Line's comment on that:

Looking beyond 3G, Qualcomm is well positioned in the 4G space, considering it now has license agreements with the world's top three handset manufacturers.

To make room for Qualcomm, we sold Mosaic at \$48.25. Mosaic has developed very sloppy forward earnings and we took the "bird in the hand" route. We bought it 18 months ago and made 24% on the stock plus another 19% on covered calls. 43% in 18 months ain't too shabby, so we took it and ran.

Here is the most important item of information in this week's entire newsletter...

Remember, Sunday is Mother's Day.

Year	Nominal GDP (billions of dollars)
1999	\$9,353.5
2000	\$9,951.5
2001	\$10,286.2
2002	\$10,642.3
2003	\$11,142.1
2004	\$11,867.8
2005	\$12,638.4
2006	\$13,398.9
2007	\$14,077.6
2008	\$14,441.4
2009	\$14,256.3

If you ask most Americans they will tell you that the reason the stock market has been in the doldrums for over ten years is because the US economy has gone nowhere.

The reality is the GDP of the U.S. is up over 50% in the last decade.

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